

Message Text

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SUBJ: AUSTRALIAN BUDGET: 1975 PERFORMANCE AND PRELIMINARY
OBSERVATIONS ON 1976

REF: (A) CANBERRA 6158, 9/19/74 NOTAL

(B) CANBERRA 6190, 9/19/74 NOTAL

(C) CANBERRA A-135, ITEM 3 NOTAL

1. AUSTRALIAN FY 76 BUDGET WILL BE PRESENTED TO PARLIAMENT AUGUST
19. IN VIEW ITS SPECIAL SIGNIFICANCE FOR LABOR GOVERNMENT'S
EFFORT TO PULL ECONOMY OUT OF DEEPEST SLUMP SINCE '30S, IT MAY BE
USEFUL PRELIMINARY TO OUR FURTHER BUDGET REPORTING BRIEFLY TO
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REVIEW OUTCOME FY 75 BUDGET AND PERFORMANCE OF RELATED ECONOMIC

INDICATORS DURING YEAR (ALL DOLLAR FIGURES ARE AUSTRALIAN DOLLARS).

2. ACTUAL FY 75 BUDGET DEFICIT WAS \$2.6 BILLION, \$2.0 BILLION MORE THAN ESTIMATED WHEN BUDGET PRESENTED SEPT. 1974. DOMESTIC DEFICIT WAS APPROXIMATELY \$2.0 BILLION COMPARED TO \$23 MILLION ESTIMATED AT BUDGET TIME. ACTUAL FY 75 OUTLAYS WERE \$17.6 BILLION, \$1.7 BILLION (10 PCT.) MORE THAN ESTIMATED, WHILE RECEIPTS WERE \$15.4 BILLION, \$298 MILLION (2 PCT.) BELOW BUDGET ESTIMATES. DEFICIT WAS FINANCED BY NET CHANGE IN TREASURY NOTES ON ISSUE (\$1.7 BILLION), USE OF CASH BALANCES (\$660 MILLION), AND PROCEEDS OF LOANS RAISED IN AUSTRALIA (\$289 MILLION).

3. ANNOUNCING THESE RESULTS JULY , TREASURER HAYDEN COMMENTED THAT STEPS TAKEN TO STIMULATE ECONOMY AND COUNTER RISING UNEMPLOYMENT (WOOL PRICE SUPPORT SCHEME, UNEMPLOYMENT AND SICKNESS BENEFITS, ADVANCES FOR WELFARE HOUSING -- SEE REF (C) FOR ADDITIONAL DETAILS) HAD ADDED TO INCREASES IN EXPENDITURES, AS HAD WAGE AND SALARY INCREASES IN GENERAL. ON RECEIPTS SIDE, SHORTFALL WAS LARGELY ATTRIBUTABLE TO OVERESTIMATION AT BUDGET TIME OF GROSS INCOME TAX COLLECTIONS AS WELL AS TO TAX REDUCTIONS INTRODUCED JANUARY.

4. ONE OF MAJOR FEATURES OF THEN-TREASURER CREAN'S PRESENTATION OF FY 75 BUDGET WAS ITS EFFORT TO ELICIT WAGE AND SALARY RESTRAINT BY OFFERING TAX REDUCTIONS AND INCREASED SOCIAL SERVICES IN RETURN. IN AUGUST 1974, AS BUDGET WAS BEING PREPARED, AVERAGE WEEKLY ADULT MALE WAGE WAS INCREASING AT ANNUAL RATE OF 29.3 PCT. THIS FIGURE ROSE TO 35.5 PCT. IN OCTOBER AND NOVEMBER, THEN BEGAN STEADY DECLINE TO 18.7 PCT. IN MAY, LAST MONTH FOR WHICH RESULTS AVAILABLE. IF THIS FIGURE HOLDS UP ADDITIONAL MONTH, IT WILL CONCLUDE YEAR WELL UNDER 22.5 PCT. INCREASE ASSUMED BY TREASURY WHEN BUDGET PREPARED.

5. RATE OF CPI INCREASE ALSO EASED SLIGHTLY BY YEAR'S END. AT END OF FY 74 IT STOOD AT ANNUAL RATE OF 14.4 PCT. BUT WAS WIDELY EXPECTED TO GO TO 20 PCT. BY END OF FY 75. IT IN FACT REACHED 17.6 PCT BY MARCH QUARTER BUT THEN TURNED DOWN TO END YEAR AT 16.9 PCT., HIGH BUT NOT YET RUNAWAY.

6. FINALLY, ONE OF MAJOR POINTS ON WHICH FY 75 BUDGET WAS LIMITED OFFICIAL USE

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DEFENDED BY LABOR GOVERNMENT WAS THAT IT DID NOT RESORT TO "MASS UNEMPLOYMENT" IN ATTEMPT TO COUNTER INFLATION. IN PRACTICE, IT WAS UNEMPLOYMENT INDICATOR THAT SHOWED POOREST PERFORMANCE DURING YEAR. FROM AN AUGUST 1974 FIGURE OF 2.11 PCT., ALARMING ENOUGH BY AUSTRALIAN FULL EMPLOYMENT STANDARDS, SEASONALLY ADJUSTED RATE ROSE TO 4.52 PCT. BY END OF FINANCIAL YEAR. IT AGAIN ROSE IN JULY TO RECORD 4.81 PCT.

7. COMMENT: THUS WHAT WAS ORIGINALLY DRAFTED AS ONLY MODERATELY EXPANSIONARY BUDGET WAS TRANSFORMED DURING YEAR INTO ONE OF MOST INFLATIONARY AUSTRALIAN BUDGETS ON RECORD. YET IT FAILED TO MAKE APPRECIABLE CONTRIBUTION TO IMPROVEMENT OF DETERIORATING UNEMPLOYMENT SITUATION. MOREOVER, ECONOMY IS STILL FACED WITH THREATENING, IF TEMPORARY ABATED, ACCELERATION OF INFLATIONARY PRESSURES. IT IS GENERALLY AGREED TUESDAY'S BUDGET WILL NONETHELESS ENTAIL DEFICIT AT LEAST AS LARGE AS LAST YEAR'S AS PART OF EFFORT TO REVIVE ECONOMY. AT SAME TIME INCREASED RESORT TO EXCISE TAXES INSTEAD OF PERSONAL AND COMPANY TAX INCREASE AS MEANS OF BOLSTERING RECEIPTS IS EXPECTED. IT WILL REQUIRE A VERY FINE TOUCH INDEED ON PART OF NEWLY-APPOINTED TREASURER HAYDEN TO SATISFY NEED TO HOLD INFLATION LINE WHILE RESTORING COMPANY PROFITABILITY, AND AT SAME TIME PROTECT GOA FROM ATTACK ON SENSITIVE UNEMPLOYMENT ISSUE BY ALP LEFT WING WHICH IS STILL SMARTING FROM DUMPING OF ITS IDEOLOGICAL LEADER JIM CAIRNS FIRST FROM TREASURER'S JOB AND THEN FROM CABINET. PERCIVAL

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